



***Central Puget Sound
Regional Transit Authority***

***Report on Subarea Equity for the
Year Ended December 31, 2006***

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Subarea Equity: Building a transit system for the region

One of the unique features of the Sound Transit plan is that it formally commits to creating a balanced regional transit system that provides benefits to the citizens of each of Sound Transit's five geographic areas – Snohomish County, North King County, South King County, East King County and Pierce County.

The principle of subarea equity assures that Sound Transit taxes raised within an area will be spent on the regional capital projects and operations that directly benefit that area.

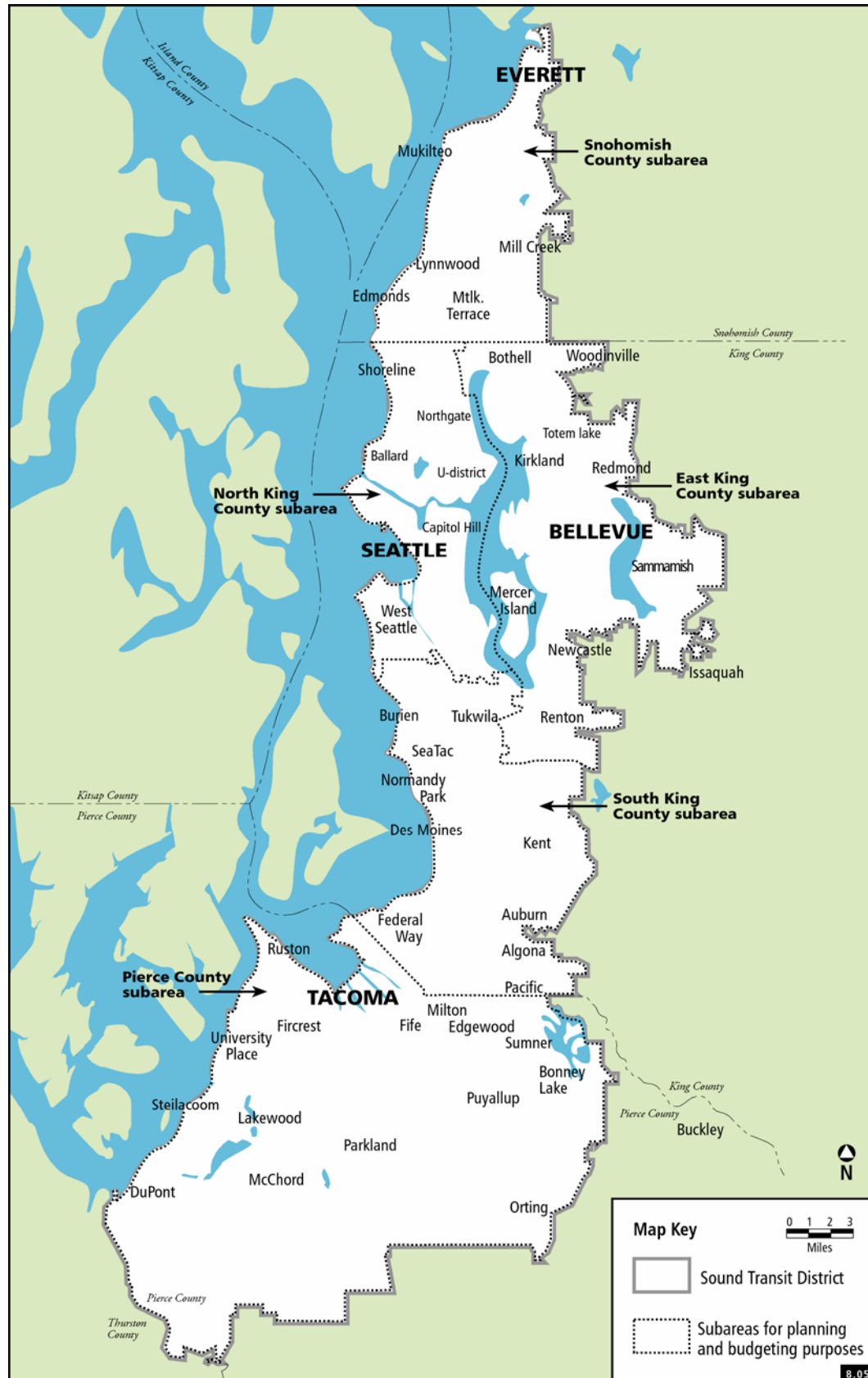
- For example, the Snohomish County Subarea is paying for Sounder commuter trains and track improvements in King County because Snohomish County residents directly benefit from the North Corridor service into Seattle and back.
- Each subarea has its own budget based on anticipated local revenues for that area plus any grants and partnership funds for specific projects.
- Priority projects for each subarea were identified through a public process involving established local elected official organizations as part of the *Sound Move* plan prior to the 1996 election.

Strong safeguards are in place

Changing the subarea equity policy would take two-thirds, or 12 votes, of the 18-member Sound Transit Board. Membership on the Sound Transit Board is divided proportionately among all subareas, and no one subarea has a majority of 12 votes on the Board.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

SOUND TRANSIT DISTRICT



Sound Transit District Subareas

The Sound Transit District is divided into five geographic subareas for planning and budgeting purposes. The system components in *Sound Move* address unique needs in each of these subareas. Local tax revenues and related debt for projects and services are utilized to benefit the subareas generally in proportion to the level of revenues each subarea generates.

Snohomish County:

The Snohomish County subarea includes the cities of Brier, Edmonds, Everett, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo and Woodway. In 2006, the Snohomish County subarea had an estimated population of 397,000 residents, accounting for 59 percent of the Snohomish County population.

North King County:

The North King County subarea includes the cities of Seattle, Shoreline and Lake Forest Park. In 2006, the North King subarea had an estimated population of 646,000, accounting for 35 percent of King County's population.

South King County:

The South King County subarea includes the cities of Algona, Auburn, Burien, Des Moines, Federal Way, Kent, Normandy Park, Pacific, SeaTac and Tukwila. Since 1990, this has been the fastest growing area of King County. In 2006, the South King subarea had an estimated population of 483,000 residents, accounting for 26 percent of King County's population.

East King County:

The East King County subarea includes the cities of Beaux Arts, Bellevue, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Kirkland, Medina, Mercer Island, Newcastle, Redmond, Renton, Sammamish, Woodinville, and Yarrow Point. In 2006, the East King subarea had an estimated population of 491,000 residents, accounting for 27 percent of King County's population.

The combined three King County subareas account for 88 percent of the total King County population.

Pierce County:

The Pierce County subarea includes the cities of Bonney Lake, DuPont, Edgewood, Fife, Fircrest, Lakewood, Milton, Orting, Puyallup, Ruston, Steilacoom, Sumner, Tacoma and University Place. In 2006, the Pierce County subarea had an estimated population of 650,000 residents, accounting for 84 percent of the Pierce County population.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

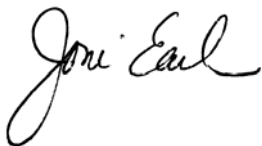
The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) are prepared from the Agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial and subarea reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to perform certain agreed upon procedures on the 2006 Schedule of Subarea Equity. Their report includes the results from the performance of these procedures which were developed by management, the Audit and Reporting Subcommittee and the Citizen Oversight Panel.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.



Joni Earl
Chief Executive Officer



Brian McCartan
Chief Financial Officer



Kelly A. Priestley
Controller

MANAGEMENT'S DISCUSSION ON SUBAREA EQUITY

For the year ending December 31, 2006

Management's Discussion on Subarea Equity presents a narrative overview and analysis of the Agency's financial activities by subarea for the year ended December 31, 2006. This discussion is intended to assist readers of the schedule in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the Schedule of Subarea Equity and footnotes as a whole, as well as Sound Transit's audited financial statements.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish Counties through commuter rail ("Sounder"), light rail ("Link") and a regional express bus system ("ST Express"). The implementation of the initial phase of the voter-approved regional transportation system ("*Sound Move*") is scheduled for a 20-year period, ending in 2016. In anticipation of a full funding grant agreement for University Link, this represents an extension of the Ten-Year Regional Transit System Plan previously scheduled to complete in 2009. The agency's activities to date have been concentrated on implementing service in all three transit modes and on the design, environmental review and construction of its capital projects.

The concept of subarea equity is an integral part of the *Sound Move* plan approved by the voters in 1996 and requires that subarea equity be achieved by the completion of Phase 1. The *Sound Move* plan included *Appendix A: Detailed Description of Facilities and Costs* that defined subarea equity through programming projects and services. *Sound Move Appendix B: Financial Policies* defines the requirements of subarea equity through implementation, monitoring and adjustment policies. As required in *Appendix B*, the Agency has implemented an accounting system that details transactions and facilitates reporting of what has been earned and spent in each subarea and is the basis upon which the annual Report on Subarea Equity is prepared.

Since 1998, Sound Transit has produced the Schedule of Subarea Equity and related notes. As part of the annual engagement with the agency's auditors, an examination based on agreed-upon procedures is performed with results reported to the board's Audit and Reporting Subcommittee. To date, there have been no significant reported issues.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital projects in progress, and property, vehicles and equipment. As the Agency has not reached its full service levels and is in the construction stage on its light rail project, major sources of revenue exceed expenses and capital outlays, resulting in a rising net asset position.

Preparation of the Schedule of Subarea Equity

The Schedule of Subarea Equity is prepared from the Agency's accounting system from which the financial statements are prepared. The totals by subarea, including the Regional Fund, are agreed to the audited financial statements, which are reported on separately by Sound Transit's auditors. The financial statements are prepared in conformity with United States generally accepted accounting principles as applied to government units and are prepared using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are prepared.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with

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Management's Discussion of Subarea Equity, continued

the operation of Sound Transit are included in the Balance Sheets and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The Schedule of Subarea Equity presents the overall financial results by equity area, as well as their net assets, segregated by invested in capital assets, restricted and unrestricted. Net assets are the difference between assets and liabilities and over time may serve as a useful indicator of each subarea's financial position. However, the Schedule of Subarea Equity should be read together with Sound Transit's financial statements, which also include management's discussion and analysis of those statements, along with notes which provide additional information that is essential to a full understanding of the information provided.

Financial Highlights

- Total operating revenues were \$21.5 million in 2006, an increase of \$1.6 million from the prior year. Passenger fares increased by \$1.6 million, and other operating revenues were comparable to the prior year.
 - The increases were experienced in all revenue service subareas, with the exception of East King County, which was substantially flat. The largest increase was in South King County, which increased by \$0.9 million.
- Total operating expenses in 2006, excluding depreciation and loss on disposal of assets, were \$107.6 million, an increase of \$9.8 million from 2005.
 - Consistent with service level increases, costs increased in all subareas except North King County which currently does not fund revenue service. The largest increases were in East King County (\$4.2 million) and South King County (\$3.7 million).
- Net non-operating revenues were \$350.4 million in 2006, an increase of \$38.7 million from 2005.
 - Increases were experienced in all subareas and are primarily attributable to stronger sales and motor vehicle excise tax revenues of \$23.5 million as the economy continues to perform strongly.
 - Contributing to the increased net revenue position was an increase in investment earnings of \$11.2 million, the benefit of which is earned in the regional fund.
- Net capital contributions were a positive \$71.8 million in 2006, a decrease of \$14.8 million from 2005. Federal and other capital contributions received increased by \$2.1 million, however contributions to other governments, increased by \$16.9 million.
 - Positive federal and other capital contributions occurred in all subareas except in Snohomish County and North King County. As the Link light rail project progresses south, grant drawdowns increased in South King County but decreased in North King County. The decrease in Snohomish County reflects the 2005 grant drawdown in Snohomish County related to the Everett-to-Seattle commuter rail corridor projects.
 - The increased contributions to other government were noted primarily in South King County (\$23.1 million) and East King County (\$24.9 million) and reflect the completion of the Federal Way HOV Access/317th; Eastgate Transit Access/142; and Sammamish Park and Ride/228th. Snohomish County experienced a \$22.7 million positive impact as in 2005 the Ash Way Transit Access/164th project was completed.
- Total net assets at December 31, 2006, were \$2.6 billion, an increase of \$302.6 million from 2005. An increase in net assets reflects an excess of revenues over expenses and net assets increased in all subareas.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

- Revenues exceeded expenses in all subareas as follows: Snohomish County, \$29.4 million; North King County, \$134.9 million; South King County, \$64.9 million; East King County, \$18.0 million; Pierce County, \$50.2 million; and the Regional Fund, \$5.2 million.
- Total capital assets, net of depreciation, were \$2.9 billion at December 31, 2006, an increase of \$592.8 million from 2005.
 - Total net capital assets increased in all subareas except the Regional Fund, with the largest increases in North King County, \$335.9 million, and South King County, \$182.0 million, reflecting activity on the Link light rail project. The Regional Fund decreased by \$4.9 million reflecting depreciation of administrative assets.
- At December 31, 2006, the restricted and unrestricted net amount available for investment in each subarea was Snohomish County, \$26.1 million; North King County, \$17.4 million; South King County, \$70.7 million; East King County, \$242.6 million; Pierce County, \$117.0 million; and the Regional Fund, \$87.7 million. These amounts represent what was available at December 31, 2006, based on the revenues, expenses, capital expenditures and bonds issued for *Sound Move* to date. These amounts do not take into account revenues, expenses, capital expenditures and bonds to be issued for the remainder of Phase I of *Sound Move*.
- At December 31, 2006 and 2005, there were no subarea loans. At the end of 2004, there was a subarea loan to Snohomish which was repaid in July, 2005.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Financial Analysis

Excess of Revenues over Expenses and Change in Net Assets

In 2006, revenues exceeded expenses by \$302.6 million, while in 2005 they exceeded expenses by \$285.7 million. While there are a number of significant fluctuations within the various revenue and expense categories, the underlying increase in revenues over expenses from 2005 relates to an increase in non-operating revenues of \$38.7 million while positive net capital contributions decreased by \$14.8 million and the agency's loss from operations increased by \$7.2 million.

Table S-1

Excess of Revenues Over Expenses by Subarea							
<i>(in millions)</i>							
	As of December 31, 2006						
	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Operating Revenues							
Passenger fares	\$ 2.7	\$ -	\$ 2.8	\$ 7.2	\$ 5.4	\$ -	\$ 18.1
Other	0.7	0.3	1.0	0.1	1.2	0.1	3.4
Total Operating Revenues	3.4	0.3	3.8	7.3	6.6	0.1	21.5
Operating Expenses							
Total operating expenses, before depreciation and loss on disposal of assets	13.7	0.2	19.0	33.3	25.5	15.9	107.6
Depreciation and loss on disposal of assets	4.3	0.1	9.4	5.9	11.4	2.4	33.5
Total operating expenses	18.0	0.3	28.4	39.2	36.9	18.3	141.1
Loss from operations	(14.6)	0.0	(24.6)	(31.9)	(30.3)	(18.2)	(119.6)
Non-operating revenues, net of expenses	42.9	82.2	62.4	78.4	61.8	22.7	350.4
Income before capital contributions	28.3	82.2	37.8	46.5	31.5	4.5	230.8
Capital contributions	1.1	52.7	27.1	(28.5)	18.7	0.7	71.8
Change in Net Assets	29.4	134.9	64.9	18.0	50.2	5.2	302.6
Total net assets, beginning	223.2	786.6	505.5	389.2	333.9	106.3	2,344.7
Total Net Assets, ending	<u>\$ 252.6</u>	<u>\$ 921.5</u>	<u>\$ 570.4</u>	<u>\$ 407.2</u>	<u>\$ 384.1</u>	<u>\$ 111.5</u>	<u>\$ 2,647.3</u>

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

A summary of significant changes by equity area is as follows:

Snohomish County

Revenues exceeded expenses by \$29.4 million, up \$3.2 million from 2005. This increase substantially relates to stronger tax revenues which increased by \$3.8 million. Loss from operations was substantially flat. While service levels and operating expenses did increase, as a result of a change in the relative average fare per boarding ("AFB") between modes, greater fare revenues were attributed to Sounder ridership with a favorable impact to Snohomish County, South King County and Pierce County.

North King County

Revenues exceeded expenses by \$134.9 million, up \$4.7 million from 2005. This increase relates to higher net non-operating revenues of \$10.1 million, of which \$5.0 million was due to stronger tax revenues and 2005 included a \$6.3 million write off related to the change in alignment for North Link. Net capital contributions decreased by \$5.5 million, primarily due to lower federal contributions relating to the full funding grant agreement for the light rail project as construction progresses in South King County.

South King County

Revenues exceeded expenses by \$64.9 million, up \$1.4 million from 2005. The loss from operations increased in 2006 by \$2.6 million, reflecting the full year impact of the increase in the addition of the fourth round-trip Sounder service in September 2005 and the addition of Route 577 between Federal Way and Seattle on ST Express. The increased operating loss was offset by higher net non-operating revenues of \$3.0 million, reflecting stronger tax revenues of \$4.3 million. Net capital contributions increased by \$0.9 million, with contributions from other governments increasing by \$24.0 million while contributions to other governments increased by \$23.1 million. The increased capital contributions from other governments reflect federal grant drawdowns on the initial segment of the light rail project and the Federal Way ST Express projects, while contributions to other governments reflect the completion of the Federal Way HOV Access/317th project.

East King County

Revenues exceeded expenses by \$18.0 million, down \$28.7 million from 2005. Net contributions to other governments increased by \$24.5 million with the completion of the Eastgate Transit Access/142 and Sammamish Park and Ride/228th SE projects. Loss from operations increased by \$4.4 million from 2005, while net non-operating revenues increased by \$0.2 million. The loss from operations reflects higher operating costs and depreciation related to increases in service levels on ST Express while revenues remained flat. Actual boardings increased on ST Express in East King County; however, as ST Express was negatively impacted by the change in the relative AFB between modes, fare revenue decreased slightly. The change in net non-operating revenues reflects stronger tax revenues of \$6.2 million which was substantially offset by a \$5.9 million impairment of project costs due to structural cracking related to a design error identified on the Totem Lake Freeway Station project.

Pierce County

Revenues exceeded expenses by \$50.2 million, up \$14.9 million from 2005. Loss from operations was substantially flat, increasing by \$0.3 million while net non-operating revenues increased by \$3.7 million and net capital contributions increased by \$11.3 million. Federal and other contributions increased by \$7.5 million, mostly related to contributions from the Port of Tacoma and the City of Tacoma for the D to M Street project as well as federal grant funding of activity in the Sounder Tacoma-to-Lakewood corridor project. Contributions to other governments decreased by \$3.8 million, as 2005 included a pass-through grant to Amtrak.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Regional Fund

Revenues exceeded expenses by \$5.2 million, up \$21.5 million from 2005. The increase is attributable to higher net operating revenues of \$17.1 million, net positive capital contributions of \$3.9 million and lower general and administrative costs of \$0.5 million. Major contributors included an increase in investment earnings of \$14.8 million, a significant reduction in fare integration expenses reflecting the change in the regional fare agreement and lower contributions to other governments as initial payments under the Smart Card agreement had been paid to partner agencies by the end of 2005. Subsequent payment under the agreement likely will not occur until 2009. As the regional fund was in a positive net asset position, no contributions of tax revenues were made from the subareas to the regional fund.

Operating Revenues

Operating revenues are comprised of passenger fares and other revenue related to operations. Operating revenues increased in 2006 by \$1.6 million, all related to higher passenger fare income, and reflecting full-year impact of service changes from 2005, 2006 service increases, and an increase in the overall AFB earned by the agency for pass ridership as a result to changes in the regional fare agreement.

Passenger Fares

Sounder Commuter Rail:

Passenger fares for Sounder commuter rail increased by \$2.0 million or 67.5% over 2005. This increase reflects the addition of a second round-trip in the Everett-to-Seattle corridor in June, 2005, and a fourth round-trip in the Tacoma-to-Seattle corridor in September, 2005. The additional service contributed to a more than doubling of passenger fares for Snohomish County for the period following the service change. In the south, fare revenue increased in both South King County and Pierce County, with ridership increases over and above what would be expected by the service changes as more people look to public transportation alternatives.

Also impacting the increased Sounder passenger fare revenues is an increase in the AFB on Sounder of \$0.61. In 2006 the AFB was \$3.02, while in 2005 it was \$2.41. The change in the AFB reflects changes to the regional Puget Pass program and a change in the agency's methodology to calculate the AFB between modes whereby greater pass revenue is now attributed to Sounder Commuter rail.

Table S-2

Sounder Passenger Fares by Equity Area					
<i>(in thousands)</i>					
	As of December 31,			% Change	
	2006	2005	2004	2006 - 2005	2005 - 2004
Snohomish County	\$ 586.1	\$ 365.9	\$ 199.5	60.2%	83.4%
North King County	-	-	-	-	-
South King County	1,551.4	901.0	730.5	72.2%	23.3%
East King County	-	-	-	-	-
Pierce County	2,970.7	1,786.0	1,333.0	66.3%	34.0%
Total Passenger Fares	\$ 5,108.2	\$ 3,052.9	\$ 2,263.0	67.3%	34.9%

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

ST Express Bus Service:

Passenger fares for ST Express Bus service decreased overall by \$0.5 million or 3.6%. Actual ridership increased by 862 thousand boardings or 9.8%, however the average fare per boarding for ST Express decreased by \$0.18 from 2005. In 2006 the AFB was \$1.34, while in 2005 it was \$1.52. The lower AFB for ST Express reflects the change in method of allocation between modes and overall the AFB increased for the Agency.

As with Sounder commuter rail service, ST Express ridership increased over and above what would be expected by the service changes as fuel prices rise and new riders are attracted to the service. South King County experienced a 19.7% increase in express bus fare revenue earned and reflects the impact of the opening of the new Federal Way Transit Center and the addition of a service route between the transit center and downtown Seattle and increased service between South King County and East King County. The decline in ST Express passenger fare revenue in Pierce County primarily relates to the change in the relative AFB by mode; however, ridership did decline by 1.7% as a result of service changes as well as a shift by riders to the Sounder service.

Table S-3

ST Express Passenger Fares by Equity Area					
<i>(in thousands)</i>					
	As of December 31,			% Change	
	2006	2005	2004	2006 - 2005	2005 - 2004
Snohomish County	\$ 2,086.6	\$ 2,053.5	\$ 1,564.3	1.6%	31.3%
North King County	-	-	-	-	-
South King County	1,265.1	1,056.9	845.6	19.7%	25.0%
East King County	7,218.8	7,253.6	5,764.0	(0.5%)	25.8%
Pierce County	2,370.9	3,065.8	2,768.6	(22.7%)	10.7%
Total Passenger Fares	\$ 12,941.4	\$ 13,429.8	\$ 10,942.5	(3.6%)	22.7%

Other Operating Revenue

Other operating revenue consists of vehicle advertising, rental of equipment, property and facilities and other miscellaneous items and was comparable overall to 2005.

Operating Expenses

Operating expenses are comprised of operations and maintenance costs, general and administrative expenses, loss on disposal of assets and depreciation.

Operations and Maintenance

Operations and maintenance include costs associated with the operation of the Sounder commuter rail, ST Express bus service and Tacoma Link light rail. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions, operating leases and rentals. Operations and maintenance increased in 2006 by \$8.0 million or 9.9% from 2005. Most of the increase was in purchased transportation, which accounts for 69% of operating expenses, and increased by \$6.9 million or 12.5%. Higher service levels, including a full year of additional round trip Sounder service in both the North and South corridors, the addition of a new route on ST Express and an overall increase in service hours of 3.1% contributed to the increase in costs, as well as fuel price increases and other costs built into purchased transportation costs.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

A summary of operating costs by subarea is as follows:

Table S-4

Operations and Maintenance by Equity Area					
<i>(in thousands)</i>					
	As of December 31,			% Change	
	2006	2005	2004	2006 - 2005	2005 - 2004
Snohomish County	\$ 13,457.2	\$ 13,000.9	\$ 9,559.9	3.5%	36.0%
North King County	-	-	-	-	-
South King County	17,506.4	15,201.6	13,036.0	15.2%	16.6%
East King County	32,751.2	28,567.1	25,650.8	14.6%	11.4%
Pierce County	25,419.1	24,333.5	22,623.3	4.5%	7.6%
Regional Fund	-	-	-	-	-
Total Operations and Maintenance	\$ 89,133.9	\$ 81,103.1	\$ 70,870.0	9.9%	14.4%

Costs increased most dramatically in South King County (15.2%) and East King County (14.6%) with the addition of the fourth Sounder train between Seattle and Tacoma, the opening of the Federal Way Transit Center in February 2006, the addition of Route 577 between Federal Way and Seattle and increased ST Express service hours of 6% in East King County. In East King County, the ST Express service hour increases included Route 545 between Redmond and Seattle; Route 550 between Bellevue and Seattle; and Route 564 between South Hill and Overlake, which was up 11%, the costs of which are shared between South King County, East King County and Pierce County. All subareas were impacted by higher fuel and contract costs for the ST Express service. In Pierce County, operations and maintenance costs did not increase as significantly as there was a decline in ST Express hours operated due to the midday bus storage program, which reduced costs without impact to revenue service hours.

General and Administrative

General and administrative expenses are comprised of Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses. Total Agency staff and administrative costs before allocation to capital projects increased in 2006 by \$1.8 million or 10.7% from 2005. The increase in costs in 2005 were in the areas of salary and benefits and advertising as vacant positions from 2004 were filled and advertising efforts were increased to promote public transportation.

General and administrative costs are allocated to capital projects and transit operations based on activity drivers and relative level of spending. Costs allocated to capital projects in 2006 were \$23.4 million and to transit operations and maintenance were \$6.5 million. These allocations were comparable to 2005 which were \$24.2 million and \$5.9 million respectively. Also included in general and administrative costs are any write-off of overhead from projects. As projects approach completion, allocated overhead costs are reviewed and any excess costs are written off. In 2006, \$2.4 million in excess costs were written off, as compared to \$0.6 million in 2005.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

A summary of general and administrative costs by subarea is as follows:

Table S-5

General and Administrative Costs by Equity Area					
<i>(in thousands)</i>					
	As of December 31,			% Change	
	2006	2005	2004	2006 - 2005	2005 - 2004
Snohomish County	\$ 275.0	\$ 1.8	\$ (1.1)	15,434.5%	(258.4%)
North King County	166.4	181.5	966.6	(8.4%)	(81.2%)
South King County	1,517.0	167.0	346.3	808.2%	(51.8%)
East King County	515.6	523.1	1.6	(1.4%)	32,179.8%
Pierce County	54.0	80.8	159.9	(33.2%)	(49.5%)
Regional Fund	15,942.6	15,736.3	13,866.2	1.3%	13.5%
Total General and Administrative	\$ 18,470.6	\$ 16,690.5	\$ 15,339.5	10.7%	8.8%

Before allocations to capital projects and operations, total agency staff and administrative costs for 2006 were comparable to 2005 and total general and administrative costs allocated to capital projects and transit operations have remained relatively constant and were \$29.9 million in 2006 and \$30.1 million in 2005. The most significant change between 2006 and 2005 was the write off overhead costs, which increased by \$1.8 million, of which \$1.4 million related to the Tukwila Sounder Station project in South King County, the construction of which has been postponed. Snohomish County, which increased by \$0.3 million, was also impacted by overhead write-offs. Annually the agency reviews its project costs and as projects approach completion, or as circumstances change indicating those costs no longer have continuing value, they are written off.

Depreciation and Loss on Disposal of Assets

Depreciation expense decreased in 2006 by \$1.0 million or 2.9% from 2005. The reduction is largely due to certain assets that are continuing to be left in service for a few additional years.

Non-Operating Revenues (Expenses)

Non-operating revenues increased by \$34.7 million or 10.4% from 2005. The most significant impact has been stronger tax revenues, which improved by \$23.5 million over the prior year, as well as investment earnings which increased by \$11.2 million. These increases reflect the continued strengthening of the regional economy as well as the impact of rising interest rates in 2005, which peaked toward the end of 2005. Under Sound Move, investment revenues generally are attributed to the Regional Fund resulting in a \$14.8 million increase. This increase is more significant than the overall increase in investment earnings as in 2005 there were significant cash balances available from bond proceeds from the 2005A Sales Tax Bonds issued March, 2005. Interest earnings from unspent bond proceeds are allocated to subareas in proportion to their share of the debt. The bond proceeds were spent down by May 2006 resulting in decreases by subarea as follows: Snohomish County – \$0.5 million; North King County – \$1.5 million; South King County – \$0.9 million; and Pierce County – \$0.8 million.

Non-operating expenses include supplemental mitigation in the Rainier Valley, ST2 planning, costs not eligible to be capitalized, fare integration subsidies to other transit agencies, discontinued project costs and losses not related to operations. Non-operating expenses decreased by \$4.0 million from 2005, mostly related to a reduction in fare integration subsidies, the program of which was substantially spent by the end of 2005 under the cap established with the funding by Sound Transit of participating agencies in the Smart Card project. In addition, in 2005 this category included a \$6.3 million write-off of North

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Link costs related to the change in alignment, whereas in 2006 \$5.9 million of costs were considered impaired due to the structural cracking related to a design error identified in the Totem Lake Freeway Station project.

Tax Revenues

Tax revenues consist of sales tax, motor vehicle excise tax and rental car tax. Overall tax revenues were up \$23.5 million or 7.6%. This increase was experienced by subarea in the range of 6.4% to 9.9%.

A summary of tax revenues by subarea is as follows:

Table S-6

Tax Revenues by Equity Area						
<i>(in millions)</i>						
	As of December 31			% Change		
	2006	2005	2004	2006 - 2005	2005 - 2004	
Snohomish County	\$ 42.6	\$ 38.7	\$ 35.3	9.9%	9.8%	
North King County	83.3	78.3	72.0	6.4%	8.9%	
South King County	60.5	56.2	53.8	7.6%	4.4%	
East King County	85.0	78.9	73.3	7.8%	7.5%	
Pierce County	60.4	56.2	51.5	7.4%	9.3%	
Total Tax Revenues	\$ 331.8	\$ 308.3	\$ 285.9	7.6%	7.8%	

Tax revenue increases by subarea were as follows:

- In Snohomish County tax revenues increased by \$3.9 million or 9.9%, with sales tax up \$3.2 million or 11.3% and motor vehicle excise taxes up \$0.6 million or 6.1%. Rental car tax was substantially unchanged from the prior year.
- In North King County, tax revenues increased by \$5.0 million or 6.4%, with sales tax up \$4.0 million or 7.1%, motor vehicle excise tax up \$0.9 million or 7.1% and a small increase in rental car tax.
- In South King County, tax revenues were up \$4.3 million or 7.6%, with sales tax up \$3.7 million or 8.4% and motor vehicle excise tax up \$0.6 or 4.8% and a small increase in rental car tax.
- In East King County, tax revenues were up \$6.1 million or 7.8%, with sales tax up \$5.2 million or 8.4%, and motor vehicle excise tax up \$0.9 or 5.6% and a small increase in rental car tax.
- In Pierce County, tax revenues were up by \$4.2 million or 7.4%, with sales tax up \$3.3 million or 8.0% and motor vehicle excise tax up \$0.9 million or 5.9%. Rental car tax was substantially unchanged from the prior year.

Interest Expense

As in 2005, capital activity in 2006 supported full capitalization of the interest expense on outstanding bonds payable. Interest expense is charged to each subarea in proportion to their share of the debt and capitalized to projects in relation to construction spending during the year.

Capital Contributions

Net capital contributions decreased in 2006 by \$14.8 million from 2005. Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvements or funding agreements. Federal

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

contributions remained strong, but decreased by \$4.9 million from 2005, state and local contributions increased by \$7.0 million and contributions to other governments increased by \$16.9 million. Some of the significant changes by subarea are highlighted as follows:

Snohomish County — Net capital contribution activity was low in 2006, down \$0.8 million from 2005. In 2005 capital contributions included funding of \$24.8 million from the Federal Transit Administration related to Sounder's Everett Station, substantially offset by contributions to other governments which included the completion of the Ash Way Transit Access/164th project.

North King County — Net capital contributions were down \$5.5 million from 2005. Federal, state and local contributions were \$52.7 million of which \$51.8 million is from federal funds and was down \$6.6 million in 2005 as construction on the alignment moves into South King County on the Link light rail project. There were no contributions to other governments in 2006, whereas in 2005 \$1.3 million was expensed. Also included in this category are local contributions related to the Community Development Fund, which totaled \$0.9 million in 2006.

South King County — Net capital contributions were up \$0.9 million in South King County. Federal, state and local contributions were \$55.8 million, up \$24.0 million, with \$49.2 million from federal funding mostly related to spending on the Link light rail project. Also received in 2006 was \$9.7 million related to the Federal Way Transit Center project, down \$1.1 million from 2005. Contributions to other governments increased by \$23.1 million and reflect the completion of the Federal Way HOV Access/317th project.

East King County — Net capital contributions were down \$24.6 million in East King County, of which \$24.9 million relates to contributions to other governments with the completion of the Eastgate Transit Access/142nd and Sammamish Park-and-Ride/228th SE projects, while 2005 included the SR900 Park-and-Ride Arterial Improvements and the Issaquah Highlands Park-and-Ride. Federal, state and local capital contributions of \$12.9 million was up \$0.3 million from 2005 and included project funding for Mercer Island Park-and-Ride, Eastgate Transit Access, Kirkland Transit Center and the Bellevue Transit Center.

Pierce County — Net capital contributions were up \$11.3 million in Pierce County. Federal, state and local contributions were up \$7.5 million from the prior year mostly related to local contributions from The Port of Tacoma and The City of Tacoma for the D to M Street Sounder corridor project. Contributions to other governments decreased by \$3.8 million, mostly related to a pass through grant for Amtrak in the prior year.

Regional Fund — Net capital contributions were up \$3.9 million in the Regional Fund as contributions to date to other governments for the Smart Card project were expensed in the prior year.

Contributions to Regional Fund

No contributions to the Regional Fund were made in 2006 as the regional fund was in a positive net asset position. As described in Note 6 to the Schedule of Subarea Equity, up to 10% of a subarea's total tax revenues may be utilized to fund Regional Fund activities.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Capital Assets

Capital assets are comprised of capital projects in progress and property, vehicles and equipment, net of depreciation. At December 31, 2006, capital assets were \$2.9 billion, an increase of \$593 million from 2005.

Table S-7

Sound Transit Capital Assets

(in millions)

	As of December 31, 2006						
	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Land	\$ 20.3	\$ 144.5	\$ 62.1	\$ 12.4	\$ 51.6	\$ -	\$ 290.9
Permanent easements	210.1	0.9	5.6	-	0.1	-	216.7
Capital projects in progress							
Sound Transit	15.4	1,092.4	387.3	28.9	29.6	4.9	1,558.5
Other governments	11.5	-	11.1	75.2	6.0	-	103.8
Total Non-Depreciable Assets	257.3	1,237.8	466.1	116.5	87.3	4.9	2,169.9
Buildings, transit facilities & rail	22.7	1.7	101.0	28.7	112.0	22.7	288.8
Rail access rights	14.4	-	160.8	-	129.8	-	305.0
Revenue vehicles	39.6	-	59.5	43.9	88.7	-	231.7
Equipment, vehicles & other	0.0	0.1	0.0	0.1	0.0	15.5	15.7
Total Depreciable Assets	76.7	1.8	321.3	72.7	330.5	38.2	841.2
Less accumulated depreciation	(18.8)	(0.1)	(34.0)	(24.5)	(44.6)	(18.7)	(140.7)
Net Depreciable Assets	57.9	1.7	287.3	48.2	285.9	19.5	700.5
Total Net Capital Assets	\$ 315.2	\$1,239.5	\$ 753.4	\$ 164.7	\$ 373.2	\$ 24.4	\$2,870.4

A summary of major changes at December 31, 2006, by equity area is as follows:

Snohomish County

Capital assets increased by \$53.6 million from the prior year. Capital projects in progress increased by \$5.8 million. Land, permanent easements and depreciable assets increased by \$47.8 million, mostly related to the \$50.0 million acquisition of the third permanent easement from BNSF providing Sound Transit the right to add a third round-trip between Everett and Seattle.

North King County

Capital assets increased by \$335.9 million from the prior year, of which \$334.4 million is in capital projects in progress and the Link light rail projects. Spending for the year included \$1.5 million in land, transit facilities and art with most of the significant spending on capital projects. Capital project activity included progress on the Link Central Line (CPS to 126th; 126th to 154th; Downtown and Beacon Hill tunnels; and Martin Luther King Way); Airport Link; North Link (UW to Brooklyn); Beacon Hill and McClellan Stations; the E-3 Busway; traction power systems; the Operations and Maintenance Base; and light rail vehicles.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

South King County

Capital assets increased by \$182.0 million from the prior year, represented by \$9.4 million in land and permanent easement additions, net spending on capital projects of \$177.1 million and an increase in depreciable assets of \$47.0 million. Major capital project spending included: Seattle to Auburn track and signal; Link Central Line; Airport Link; the Central Link Operations and Maintenance Base; light rail vehicles; and the Federal Way Transit Center and HOV access. Projects completed and transferred to depreciable assets or contributions to other governments included: the Federal Way Transit Center; the Federal Way HOV Access/317th project; and rail access rights as BNSF makes progress on its improvements on its line.

East King County

Capital assets increased by \$13.5 million from the prior year, mostly related to capital project spending. Major project spending in 2006 included: Totem Lake Freeway Station/NE 128th; Eastgate Transit Access/142nd; Issaquah Transit Center and Mercer Island Park and Ride. Major projects completed during the year were the Bellevue Riders Services Building, Eastgate Transit Access/142nd and Sammamish Park-and-Ride.

Pierce County

Capital assets increased by \$12.7 million from the prior year, represented by an increase in land of \$17.8 million, an increase in depreciable assets of \$23.8 million and a decrease in construction in progress of \$11.1 million. The change in construction in progress and land includes a transfer from construction in progress to land of costs for the Nisqually-to-Tacoma North Line acquisition as well as the capitalization costs of rail access rights as BNSF makes progress on its improvements on its line. Major capital project spending included: track and signal projects (Auburn to Tacoma, D Street to M Street, and Lakewood to Tacoma) and Nisqually-to-Lakewood right of way.

Regional Fund

Regional Fund capital assets mostly related to Union Station and related furniture, fixtures and equipment and decreased from the prior year by \$4.9 million.

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KPMG LLP
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Seattle, WA 98104

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Audit and Reporting Sub Committee of the Board of Directors:
Central Puget Sound Regional Transit Authority

We have performed the procedures enumerated below, which were agreed to by the Audit and Reporting Sub Committee, the Citizens Oversight Panel, and management of Central Puget Sound Regional Transit Authority (Sound Transit), solely to assist you in evaluating the accompanying Schedule of Subarea Equity (the Schedule) (prepared in accordance with the criteria specified therein) for the year ended December 31, 2006. Sound Transit's management is responsible for the Schedule. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Throughout these procedures there is reference to subarea allocation rules, which are described in Note 1 of the unaudited schedule – Significant Subarea Accounting Policies.

The procedures that we performed on the accompanying schedule and our findings are as follows:

Schedule of Subarea Equity

1. We agreed each amount in the total column of the Schedule of Subarea Equity to the audited financial statements of Sound Transit, without exception.
2. We verified the mathematical accuracy of the totals and subtotals shown on the Schedule, without exception.

Operating Revenues

Passenger Fares

3. **Regional Express passenger fare revenues:** We recalculated the amount of Regional Express passenger fare revenues allocated to each subarea by multiplying the allocation percentages (computed from platform hours, subarea boardings and average fare per boarding provided by Sound Transit), by the total Regional Express passenger fare revenues recorded in the general ledger. In addition, we recalculated the allocation percentages described above, without exception.
4. **Sounder passenger fare revenues:** We recalculated the amount of Sounder passenger fare revenues allocated to each subarea by multiplying allocation percentages (computed from the 2006 survey of ridership boardings provided by Sound Transit), by the total Sounder passenger fare revenues. In addition, we recalculated the allocation percentages based on the survey results, without exception.



Other Operating Revenues

5. **Advertising revenues:** We selected a total of 5 receipts recorded in advertising revenues. We verified that the amounts sampled agreed to underlying support provided by Community Transit and Pierce Transit and verified that the revenues have been allocated in accordance with the allocation percentages derived from the annual estimate of platform hours identified in the Regional Express Service Implementation plan. In addition, we recalculated the allocation percentages described above, without exception.
6. **Building rental revenues:** We selected a sample of 5 building rental lease agreements. We verified that the applicable revenue under the agreement has been recorded and the amounts were recorded in the appropriate subarea or Regional Fund, based upon the location of the leased premises, without exception.
7. **Revenue vehicle rental revenues:** We selected a sample of 5 receipts recorded in revenue vehicle rental revenues. We verified that the revenues had been allocated to each subarea on a consistent basis with the underlying vehicle, as recorded in the fixed asset subledger, without exception.

Operating Expenses

8. **Transit operation and maintenance expenses:** We selected a total of 25 charges to operations and maintenance expense. The sample selection included charges to Regional Express, Sounder and Link operations. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit checks issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea based on the supporting documentation. Where a charge benefited more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules. We noted that two of our selections were not allocated to the proper subareas. The exceptions were the result of applying prior year allocation rates resulting in variances of \$1,036 and \$1,015. We reviewed the subsequent correction of differences noted above without exception.
9. **General and administrative expenses:** We selected a total of 25 charges to general and administrative expense. The sample selection included charges to Regional Express, Sounder, Link and the Regional Fund. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit checks issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea or Regional Fund based on the supporting documentation. Where a charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules, without exception.
10. **Depreciation expenses:** We agreed the depreciation expense total for each subarea and for the Regional Fund to the year-end reconciliation report from the fixed asset subledger, without exception.

Nonoperating Revenues

11. **Sales and rental car tax revenues:** We selected three months from throughout the year and agreed the amount of sales and rental car tax recorded in the general ledger to supporting RTA Distribution Schedules received from the Department of Revenue. In addition, we agreed total revenues on the supporting schedules to the Washington State Department of Revenue monthly distribution reports and verified that the revenue was properly classified to the appropriate subarea, without exception.



12. **Motor vehicle excise tax:** We selected three months and agreed the amounts of motor vehicle excise tax to schedules prepared by Sound Transit personnel. We agreed total revenues on the supporting schedules to the Washington State Department of Licensing (DOL) excise tax collection reports and verified that the revenue was properly allocated to the appropriate subarea as reported by DOL. At December 31, 2006, we requested a confirmation of zip code assignment by subarea from DOL. We judgmentally selected 25 zip codes, of which 5 selections included split zips, and ensured they are assigned to the correct geographical subarea by tracing the zip code to the zip code map maintained by Sound Transit's office of Policy and Planning, or by utilizing the Postal Service web site. In addition, for the 5 split zip codes, we ensured that the revenues were allocated in accordance with Note 5 to the Schedule of Subarea Equity, without exception.
13. **Grant revenues:** We selected 18 grant draw-down requests from monthly U.S. Department of Transportation Federal Transit Administration Echo-Web Payment Reports, representing 8 different grants. For each selection, we traced a judgmentally selected sample of disbursements, or charges, from the draw-down request Detail Grant Outlay Report to the underlying invoice detail and its supporting documentation, arriving at a total sample size of 30 disbursements. In addition, we verified that the grant revenues had been coded to the correct subarea by agreeing the total from the Detail Grant Outlay Report to the Actual Grant Reimbursements Revenues (Draw-down Revenues) report and traced the distribution to the journal entry posted to the general ledger, without exception.
14. **Interest and investment revenues:** We verified the mathematical accuracy of the Annual Reconciliation of Interest Earnings schedule and agreed the total revenues to the general ledger. We verified that interest is appropriately classified to the Regional Fund as outlined in Sound Move Appendix B: Financial Policies and that interest related to the restrictive investments has been allocated to the proper subarea on a basis consistent with the subarea classification of restricted assets, without exception.

Nonoperating Expenses

15. **Interest and bond issuance expenses:** We recalculated interest expense related to long-term debt and amortization of bond issuance costs based on allocation methodology outlined in Sound Transit's financial policy – *Subarea Financial Guidance* and as described in the Notes to the Schedule, without exception.

Other

16. **Contribution to Regional Fund:** We verified the mathematical accuracy of contributions to the Regional Fund by adding total tax revenues for each subarea and multiplying the sum by the percentage prescribed in the current financial plan and as described in the Notes to the Schedule, without exception.
17. **Intersubarea Borrowing Revenue (Expense):** We verified the mathematical accuracy of recorded intersubarea borrowings at year end. We verified the monthly revenue (expense) attributed by subarea based on the outstanding borrowing at the beginning of the year, repayment of borrowings and recalculation of interest earnings (expense) at the actual rate of inflation according to the U.S. Department of Labor website (not seasonally adjusted) Seattle–Tacoma–Bremerton, WA area CPI-U and as described in the Subarea Financial Guidance, without exception.
18. **Total net assets beginning and ending of year:** We agreed the total net assets, beginning of year for each subarea to the published schedule of subarea equity for the year ended December 31, 2005. In addition, we verified the mathematical accuracy of the ending equity balance for each subarea by adding beginning equity and the excess of revenues over expenses for the year then ended, without exception.



Capital Assets

19. **Charges to capital projects:** We selected a sample of 25 charges to capital projects in progress from a listing of entries to construction in progress general ledger accounts, including charges to projects that may have been completed during the year. We agreed the amounts to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined whether each charge was properly classified into the appropriate subarea. Where a direct vendor charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rule, without exception.
20. **Charges to property and equipment:** We selected a sample of 25 charges posted to the properties and equipment accounts, exclusive of the capital projects in progress accounts described above in Item 19. We agreed the amounts to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined that each charge was properly classified into the appropriate subarea. Where a charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules, without exception.
21. **Accumulated depreciation:** We agreed accumulated depreciation as reported on the Schedule to the underlying depreciation records, and determined that the amounts allocated to each subarea agreed to the year-end reconciliation report from the fixed asset subledger, without exception.

Bonds Payable

22. **Bonds payable:** We recalculated amounts allocated to each subarea based on the current financial plan and as described in the notes to the Schedule, without exception.

Net Assets

23. **Invested in capital assets, net of related debt:** We recalculated invested in capital assets, net of related debt, by subarea by subtracting the invested in long-term debt from capital assets presented within the schedule, without exception.
24. **Restricted:** We recalculated amounts presented in the schedule by subarea by examining the underlying nature of the restricted asset. For those restricted assets for which the final subarea determination was not yet known, we confirmed that the amount had been assigned to the Regional Fund until actual spending had occurred, without exception.
25. **Unrestricted:** We verified the calculation of unrestricted net assets by subtracting invested in capital assets, net of related debt and restricted net assets from total net assets for each subarea, without exception.

Allocated Charges

26. **Allocated Charges:** We selected from the general ledger a sample of 25 charges from capital, operations and maintenance and general administrative expense categories. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit check issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea or Regional Fund, utilizing the allocation rules reviewed and approved by the Board, without exception.



Inter-Subarea Borrowings

27. We verified through review of the financial model provided by management that all inter-subarea borrowings within the financial model are refinanced annually and include annual interest earnings and charges at the forecasted rate of inflation (Seattle CPI-U) through 2009, without exception.
28. We verified through review of the financial model provided that there are no inter-subarea lending activities included in the financial model for the years after 2009.

Debt Service Coverage Calculation

29. We recalculated the net debt service coverage ratio by year in the financial model for each subarea and the agency as a whole for the period 1997 – 2006, without exception. The net debt service coverage ratio is defined as tax revenues, fares, formula grants, and inter-subarea transfers less operations and maintenance costs divided by debt service less initial debt service payments.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Schedule. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Audit and Sub Committees of the board of directors, the Citizens Oversight Panel, and management of Sound Transit, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 15, 2007

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**MANAGEMENT'S ANALYSIS OF EXCEPTIONS FOUND IN THE
AGREED UPON PROCEDURES TO THE SCHEDULE OF SUBAREA
EQUITY**

Year Ended December 31, 2006

Procedure No. 8: Transit Operation and Maintenance Expenses

An invoice for the Mobility Initiative Program for citizen access televised town meeting was identified as using an incorrect subarea percentage allocation and a marketing billboard vendor, each resulting in a \$1.0 thousand allocation error between Snohomish, South King, East King, and Pierce subareas. In one situation, a prior year allocation percentage was utilized and in the other an incorrect rule selected, which was not detected during the review process.

To facilitate the selection of correct rules for coding, the Transportation Services Division budget analyst will implement communication when rules are updated for changes in the annual Service Implementation Plan. Additionally the accounting and budget divisions will utilize the agency's SharePoint site to publish rules and provide training, which will provide greater access to staff that are responsible for coding or review of invoices.

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***Central Puget Sound
Regional Transit Authority***

*Schedule of Subarea Equity
For the Year Ending December 31, 2006*

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity

For the Year Ending December 31, 2006

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Operating Revenues							
Passenger fares	\$ 2,673	\$ -	\$ 2,817	\$ 7,219	\$ 5,343	\$ -	\$ 18,052
Other operating revenue	676	269	1,039	99	1,240	108	3,431
Total Operating Revenues	3,349	269	3,856	7,318	6,583	108	21,483
Operating Expenses							
Operations and maintenance	13,457	-	17,507	32,751	25,419	-	89,134
General and administrative	275	167	1,517	516	54	15,942	18,471
Loss on disposal of assets	-	3	-	-	-	-	3
Depreciation, amortization and accretion	4,297	87	9,449	5,927	11,372	2,354	33,486
Total Operating Expenses	18,029	257	28,473	39,194	36,845	18,296	141,094
Loss from Operations	(14,680)	12	(24,617)	(31,876)	(30,262)	(18,188)	(119,611)
Non-Operating Revenues (Expenses)							
Sales tax and rental car tax	31,842	69,662	48,203	67,188	44,696	-	261,591
Motor vehicle excise tax	10,727	13,676	12,253	17,845	15,701	-	70,202
Other non-operating revenues	395	1,852	2,829	-	1,912	30,351	37,339
Non-operating expenses	(83)	(2,996)	(913)	(644)	(88)	(7,634)	(12,358)
Interest expense	-	-	-	-	(406)	(30)	(436)
Discontinued projects	-	-	-	(5,944)	-	-	(5,944)
Total Non-Operating Revenues	42,881	82,194	62,372	78,445	61,815	22,687	350,394
Income Before Capital Contributions	28,201	82,206	37,755	46,569	31,553	4,499	230,783
Capital Contributions							
Capital contributions to other governments	(358)	-	(29,624)	(41,431)	(1,090)	(247)	(72,750)
Federal capital contributions	1,087	51,808	49,192	11,731	15,718	909	130,445
Other capital contributions	402	894	7,573	1,199	4,012	-	14,080
Net Contributions	1,131	52,702	27,141	(28,501)	18,640	662	71,775
Change in Net Assets	29,332	134,908	64,896	18,068	50,193	5,161	302,558
Total Net Assets, Beginning of Year	223,257	786,561	505,495	389,194	333,864	106,351	2,344,722
Total Net Assets, End of Year	\$ 252,589	\$ 921,469	\$ 570,391	\$ 407,262	\$ 384,057	\$ 111,512	\$ 2,647,280

See Notes to Schedule of Subarea Equity

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2006

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Capital Assets							
Non-Depreciable Assets							
Land	\$ 20,274	\$ 144,478	\$ 62,120	\$ 12,370	\$ 51,634	\$ -	\$ 290,876
Permanent easements	210,065	872	5,658	-	90	-	216,685
Capital projects in progress							
Sound Transit	15,473	1,092,433	387,235	28,903	29,570	4,948	1,558,562
Other governments	11,488	-	11,055	75,258	5,977	-	103,778
Total Non-Depreciable Assets	257,300	1,237,783	466,068	116,531	87,271	4,948	2,169,901
Depreciable Assets							
Transit facilities and heavy equipment	22,693	1,284	100,968	28,680	112,020	-	265,645
Rail access rights	14,399	-	160,751	-	129,795	-	304,945
Buildings and leasehold improvements	-	419	20	-	-	22,729	23,168
Revenue vehicles	39,613	-	59,526	43,894	88,684	-	231,717
Furniture, equipment and vehicles	33	118	37	65	2	14,592	14,847
Equipment under capital lease	-	-	-	-	-	901	901
Total Depreciable Assets	76,738	1,821	321,302	72,639	330,501	38,222	841,223
Less accumulated depreciation	(18,800)	(159)	(33,944)	(24,487)	(44,550)	(18,787)	(140,727)
Net Depreciable Assets	57,938	1,662	287,358	48,152	285,951	19,435	700,496
Total Capital Assets	315,238	1,239,445	753,426	164,683	373,222	24,383	2,870,397
Long-Term Debt							
Bonds payable	89,407	338,021	255,673	-	101,172	-	784,273
Other long-term debt	-	-	-	-	5,801	536	6,337
Less: unamortized bond issuance costs	(686)	(2,592)	(1,961)	-	(776)	-	(6,015)
Total Long-Term Debt, net of issuance costs	88,721	335,429	253,712	-	106,197	536	784,595
Invested in Capital Assets	\$ 226,517	\$ 904,016	\$ 499,714	\$ 164,683	\$ 267,025	\$ 23,847	\$ 2,085,802

See Notes to Schedule of Subarea Equity

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2006

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Inter-subarea (Borrowing) Lending	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets							
Invested in capital assets, net of related debt	\$ 226,517	\$ 904,016	\$ 499,714	\$ 164,683	\$ 267,025	\$ 23,847	\$ 2,085,802
Restricted							
Contractual arrangements	-	497	31,307	-	25,657	22,637	80,098
Deductible liability protection policy	-	-	-	-	-	5,254	5,254
Debt service, net of related obligations	5,027	19,005	14,375	-	5,688	-	44,095
State appropriation	703	-	672	-	777	-	2,152
	<u>5,730</u>	<u>19,502</u>	<u>46,354</u>	<u>-</u>	<u>32,122</u>	<u>27,891</u>	<u>131,599</u>
Unrestricted	<u>20,342</u>	<u>(2,049)</u>	<u>24,323</u>	<u>242,579</u>	<u>84,910</u>	<u>59,774</u>	<u>429,879</u>
Total Net Assets	<u>\$ 252,589</u>	<u>\$ 921,469</u>	<u>\$ 570,391</u>	<u>\$ 407,262</u>	<u>\$ 384,057</u>	<u>\$ 111,512</u>	<u>\$ 2,647,280</u>

See Notes to Schedule of Subarea Equity.

NOTES TO SCHEDULE OF SUBAREA EQUITY

For the Year Ending December 31, 2006

NOTE 1: SIGNIFICANT SUBAREA ACCOUNTING POLICIES

Revenues and expenditures directly associated with a particular subarea or project are directly credited or charged to that subarea. Revenues and expenditures benefiting more than one subarea or project are classified according to pre-established allocation rules that are expressed as percentages reflecting the Agency's assumptions regarding multiple subarea and project benefit. For capital projects these rules are developed based on the specific nature of the task rendered. For revenue and operations, maintenance, and general and administrative expenditures, rules are developed based on relevant activity drivers.

Substantially all of the Agency's expenditures are processed through the purchase order system, and coding is assigned at the time the purchase order is issued. Generally projects are subarea specific; however, some projects benefit multiple subareas and accordingly allocation rules are applied. If a rule is updated based on service implementation changes or improved activity drivers, purchase order coding is not updated for contracts that generally extend beyond one year, unless the cost of the contract and the change to the equity area percentage would have a significant impact. For all remaining purchase orders, coding is updated to the current rule in use at the time the contract is renewed.

NOTE 2: OPERATING REVENUES

Passenger fares are attributed to ST Express operations in Snohomish County, South King County, East King County, and Pierce County subareas and to Sounder commuter rail operations in Snohomish, South King County and Pierce County subareas. ST Express passenger fare revenue is allocated to each subarea during the year based on average fare per boarding and forecasted platform hours adjusted to actual at the end of the year. In 2006 the allocation by subarea was as follows: 16.12% to Snohomish County; 9.78% to South King County; 55.78% to East King County; and 18.32% to Pierce County. Sounder passenger fare revenue for the Tacoma-to-Seattle service is allocated to each subarea based on a boarding survey as follows: 34.59% to South King County and 65.41% to Pierce County. All revenue earned on the Everett-to-Seattle service is attributed to Snohomish County.

Other operating revenue consists of advertising revenues, building and rental revenues, vehicle rental revenues and miscellaneous revenues. Advertising revenues are allocated to each subarea based on the bus route miles within each subarea. Building rental revenue is allocated to each subarea based on the location of the buildings. Revenue vehicle rental revenue is allocated to the subareas in the same proportion as the capitalized vehicles as follows: 20.95% to Snohomish County; 36.90% to South King County; and 42.15% to Pierce County. Regional Fund revenue is primarily attributed to rental of the Great Hall for events throughout the year.

NOTE 3: OPERATING EXPENSES

Operating expenses are costs associated with generating operating revenue and include costs for ST Express bus services, Sounder commuter rail services and Tacoma Link light rail. Operations and maintenance expenses and general and administrative expenses are charged to the subarea in which the expense occurs. Expenses that are not specific to a single subarea are allocated based on cost allocation rules, such as track or route miles, operating hours, and facility and equipment locations.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

NOTE 4: SALES AND RENTAL CAR TAX

Pursuant to Washington State RCW 81.104.170, Sound Transit has imposed a 0.4% sales and use tax for the purpose of providing high-capacity transportation service. This tax is in addition to the State of Washington sales tax and is collected by the Washington State Department of Revenue (DOR) on behalf of Sound Transit on all taxable transactions within Sound Transit's boundary. Sound Transit has also imposed a 0.8% sales and use tax on rental cars in lieu of motor vehicle excise tax, as provided for in RCW 81.104.160.

Sales tax is attributed to subareas utilizing DOR reporting by city location codes. Cities are generally unique to subareas with the exception of Bothell, Pacific, Milton and Auburn. Cities that are not unique to subareas have multiple city location reporting codes assigned, and revenue is recorded as reported by these codes. In addition, for unincorporated areas within King County, sales tax is allocated to the subareas based on relative population in the unincorporated areas of south and east King County.

NOTE 5: MOTOR VEHICLE EXCISE TAX

Pursuant to Washington State RCW 81.104.160, Sound Transit has imposed a 0.3% motor vehicle excise tax for the purpose of providing high-capacity transportation service. The Washington State Department of Licensing (DOL) collects this tax on Sound Transit's behalf on applicable vehicles licensed within Sound Transit's boundary.

The motor vehicle excise tax is attributed to subareas based on the zip code in which the vehicle is licensed. DOL utilizes DOR's geographical information system to track, report and remit by zip code revenues within Sound Transit's boundary and provides reports detailing motor vehicle excise tax by subarea based on the zip code assignment. Where a zip code falls within two subareas, revenue is allocated between those two subareas based on their relative population.

NOTE 6: OTHER NON-OPERATING REVENUES (EXPENSES)

According to *Sound Move Appendix B: Financial Policies*, investment earnings (other than those specifically associated with a subarea project or unspent bond proceeds) are allocated to the Regional Fund. Any additional amounts, above investment earnings, required to fund the Regional Fund for Phase I are contributed by the subareas based on proportional share of tax revenues, as described in Note 7. Regional Fund investment income reflects interest earned on investments and changes in market value.

Investment income related to the Burlington Northern and Santa Fe Railway repurchase agreement is allocated to each subarea based on the relative percentage of track or route miles located in each subarea. Of the total track miles, 54.96% are in the South King County subarea and 45.04% are in the Pierce County subarea.

Capital contributions are attributable to subarea-specific projects identified in the grant award and are earned as qualifying expenditures are incurred.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

NOTE 7: CONTRIBUTIONS TO THE REGIONAL FUND

Based on the 2006 Financial Plan for Phase I of *Sound Move*, 1997 through 2009, there were no contributions to the Regional Fund required in 2006. Contributions are made to the Regional Fund on an annual basis to pay for programs throughout Phase I. According to *Sound Move Appendix B: Financial Policies*, subareas may contribute up to 10% of tax revenues for funding of the Regional Fund.

NOTE 8: CAPITAL ASSETS

Capital assets include non-depreciable and depreciable assets. Capital asset costs are allocated to the subarea in which the asset or project is located or was allocated under *Sound Move*. For asset or project costs that are not specific to a single subarea, capital costs are distributed based on cost allocation rules such as track miles.

Non-depreciable assets: Non-depreciable assets include land and capital projects in progress. Capital projects in progress include project costs that are being accumulated before an asset is put into service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that are built by Sound Transit pursuant to agreements with other governments and where Sound Transit does not maintain a continuing ownership interest. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Sound Move Appendix A: Detailed Description of Facilities and Costs* and *Sound Move Appendix B: Financial Policies*.

Depreciable assets: Depreciable assets include: transit facilities and heavy equipment; buildings and leasehold improvements; revenue vehicles; furniture, equipment, and vehicles; and assets under capital leases that have been placed into service. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Appendix A* and *Appendix B*.

NOTE 9: LONG-TERM DEBT AND INTER-SUBAREA BORROWING

Consistent with *Sound Move*, the Agency issues debt and manages its cash on a consolidated basis. Bonds issued during Phase I, interest expense and bond issuance costs are allocated as spent to each subarea on a basis consistent with the forecasted total bond allocation included in the annual updated Financial Plan for Phase I. Any changes in annual allocation are done prospectively. At the end of Phase I, a reconciliation will be performed to substantiate debt issuance, related interest expense and related issuance costs by subarea.

Sound Transit's subarea financial and debt policies provide for inter-subarea borrowings based on a subarea's need prior to the completion of Phase I. This need occurs when a subarea's restricted and unrestricted net assets are in a combined deficit position. In 2006, there were no inter-subarea borrowings.

Prior to December 31, 2003, the outstanding bonds were allocated based on *Sound Move Appendix A: Detailed Description of Facilities and Costs* which was the basis for the finance plan that was in effect when the bonds were issued. Effective December 31, 2003, this methodology was updated so that bonds are allocated based on the current financial plan in effect and updated annually. Interest expenses and related issuance costs incurred are allocated each year based on the current financial plan. At the end of Phase I, interest costs will be allocated based on borrowing requirements and will be part of the overall Phase I reconciliation. The table on the following page depicts the current and prior year allocation of the outstanding bond issues, in accordance with their respective finance plans:

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

Subarea	Percentage of Total		2006 Debt Service Expenditures (in thousands)
	December 31 2006	December 31 2005	
Snohomish County	11.40%	11.60%	\$ 4,368
North King County	43.10%	45.20%	17,022
South King County	32.60%	30.30%	11,411
East King County	-	-	-
Pierce County	12.90%	12.90%	4,858
Total	100.00%	100.00%	\$ 37,659

NOTE 10: TOTAL NET ASSETS AND RESOURCES AVAILABLE FOR INVESTMENT

Total net assets are the aggregate amount of revenues less expenses and related debt service from 1997 through 2006. Revenues include taxes, grants, interest, fares and other revenues. Expenses include transit operations, general and administrative, interest, depreciation and other expenses. Total net assets, less capital investments, represent the amount still available for investment by each subarea for Phase I to date. This available investment amount does not include future bond issues related to completing Phase I capital projects. The table below depicts total net assets, capital investments to date and resources available for investment as of December 31, 2006:

Subarea	Total Net Assets (in thousands)	Capital Investments through 2006	Available for Investment
Snohomish County	\$ 252,589	\$ 226,517	\$ 26,072
North King County	921,469	904,016	17,453
South King County	570,391	499,714	70,677
East King County	407,262	164,683	242,579
Pierce County	384,057	267,025	117,032
Regional Fund	111,512	23,847	87,665
Total	\$ 2,647,280	\$ 2,085,802	\$ 561,478